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SUBJECT: CONFERENCE ON FRENCH GROWTH GAP

SENSITIVE BUT UNCLASSIFIED, NOT FOR INTERNET

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11. (U) SUMMARY. On March 6 Prime Minister De Villepin hosted a conference on economic growth. There was much talk of the Scandinavian-inspired concept of "flexisecurity," as well as GOF policies designed to support innovation. But real reforms required to boost GDP growth in the medium-term have little chance of garnering political support in the short term. END OF SUMMARY

Conference on Economic Growth Open to a Large Debate

12. (U) Prime Minister Dominique De Villepin hosted his first (and probably last) Conference on Economic Growth on March 6, 2007, with Finance Minister Thierry Breton, Minister for small and medium-sized companies Renaud Dutreil, and delegate Minister for higher education Francois Goulard. Edmund Phelps, the 2006 winner of the Nobel Prize in Economics, and Jean-Philippe Cotis, the OECD chief economist, participated in the conference, along with the then head of the Commission of Economic Affairs of the National Assembly Patrick Ollier, senior economists, international experts, businessmen and unions representatives.

Filling the Economic Growth Gap

13. (U) The conference considered why France persistently lags other industrialized countries in economic growth. De Villepin said that "3 percent GDP growth, a cut in the unemployment rate to 6 percent, and a decrease in public debt to 55 percent of GDP by 2012 are objectives that should be shared by all." He blamed the growth gap for the slow rate of increase in France's purchasing power, saying that if France had had an economic growth rate comparable to that of the U.S. in the last fifteen years, the annual average wage in France would have been 9,000 euros higher. He also asked the National Statistical Agency INSEE to provide the French with "two or three new economic growth indicators" that take into account "social progress," saying "economic growth is not only an economic issue, but also a choice of society. There is no contradiction between economic dynamism and social justice."

By Increasing Employment with "Flexisecurity"

14. (U) De Villepin proposed "pursuing and anchoring" economic choices made since 2005, notably with a reform of the labor market to reduce the unemployment rate. The reform would consist in the implementation of a "French-style flexisecurity system" (a Scandinavian model associating flexibility for enterprises and

security for employees), the merger of the National Agency for Employment (ANPE) and the Unemployment Insurance Agency (UNEDIC) along with a reinforcement of professional orientation and efficiency training, and "a reevaluation of work versus assistance" with the doubling of the earned income tax credit (EITC).

By Favoring the Development of Companies

¶15. (U) De Villepin advocated French national champions, but questioned, with Phelps, "the validity of regulations that slow the creation of young innovative enterprises and dynamic small and medium-sized companies ("gazelles")." He described measures already taken in favor those companies, but did not elaborate on future plans.

By Encouraging Innovation

¶16. (U) Innovation is the "key for the French future" in a global economy. Government measures include efforts in favor of higher education and research, and to encourage innovation in the industrial sector, and also in the government sector.

PM Supports Candidate Nicolas Sarkozy

¶17. (U) De Villepin added that "all those proposals may be found in Nicolas Sarkozy's program". In an exceptional compliment, de Villepin deemed that Sarkozy's program showed "voluntarism, imagination, mobilization, and rallying of all forces," saying that "many of those elements are necessary and indispensable to allow our country to face the challenge."

Government Sticks to 2.0-2.5 percent GDP Growth

¶18. (U) Breton confirmed that the government is forecasting GDP to increase between 2.0 and 2.5 percent in both 2007 and 2008, led by

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solid consumption thanks to rising wages, income tax cuts and an increase in the EITC. The French economy should create 190,000 jobs in 2007 and 205,000 jobs in 2008 in the non-farm private sector (or 230,000 jobs overall in both years) allowing "a continued and quick decrease in the unemployment rate." The inflation rate should slow to 1.3 percent in 2007 and 1.4 percent in 2008, after 1.6 percent in 2006. The forecast takes into account a euro equal to 1.30 USD and oil prices of 65 USD per barrel. Quizzed by journalists, Thierry Breton said he had "no special fears" about the impact of a 25-basis point increase in the European Central Bank interest rates. The government forecast includes a decrease in the overall budget deficit from 2.6 percent of GDP in 2006 to 2.4 percent in 2007 and 1.7 percent in 2008, and a decrease in the public debt from 64.6 percent of GDP in 2006 to 63.6 percent of GDP in 2007 and 62.6 percent in 2008. At the same time, taxes as a percent of GDP would decrease from 44.4 percent of GDP to 44.0 percent and 43.8 percent in 2008.

Comments

¶19. (SBU) The conference summarized ideas advocated by the government in the last two years, but did little to advance a structural reform program. The implementation of a Scandinavian-style flexisecurity system, which proponents say reconciles economic and social efficiency, would be a noteworthy reform. But, given that the "flexi" concept is anathema to French labor unions, and still raises practical questions including its financing, it would no doubt require some "French-style" adjustments, which could reduce efficiency. The consensus that GDP growth will remain sluggish in the medium-term, along with pending elections, means that real reforms have little chance in the short term.

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